

Message Text

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ACTION NEA-10

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FM AMEMBASSY CAIRO
TO SECSTATE WASHDC 7424
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E.O. 11652: N/A
TAGS: EFIN, ECON, EG
SUBJ: KAISOUNI ON ECONOMIC STRATEGY

1. DURING STATEMENT AT MARCH 30 PA DEBATE ON RISING PRICES, DEPUTY PRIME MINISTER KAISOUNI DESCRIBED GOE CONCEPT OF HOW EGYPTIAN ECONOMY SHOULD PROCEED IN NEXT FEW YEARS. KAISOUNI SAID CURRENT GOE POLICY IS TO PURSUE DEVELOPMENT OF PRODUCTIVE CAPACITY AS PRIORITY MATTER. TO THIS END, GOE HAS REDUCED AND WILL CONTINUE TO TRY TO LIMIT SHORT-TERM DEBT IN ORDER TO BUILD UP EGYPT'S INTERNATIONAL REPUTATION. THIS WILL MAKE IT ELIGIBLE FOR THE LONG TERM INVESTMENT LOANS WHICH ARE NECESSARY FOR NEXT STAGE OF DEVELOPMENT. ONE PRIORITY OF CURRENT YEAR'S BUDGET AND LONGER TERM DEVELOPMENT PLAN IS TO COMPLETE PROJECTS ALREADY BEGUN. IN 1978, KAISOUNI SAID, 90 PER CENT OF STATE INVESTMENT BUDGET WILL GO TO COMPLETE ON-GOING PROJECTS, WITH ONLY TEN PER CENT SET ASIDE FOR NEW INVESTMENT. IN 1979 THIS PERCENTAGE SPLIT COULD BE REVERSED. EGYPT WOULD THEN BEGIN PLANNING NOT JUST FOR NEXT FIVE YEARS BUT FOR

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PHUIOD UP TO YEAR 2000. HE ALSO SAID ECONOMIC SYSTEM MUST LOWER COSTS OF PRODUCTION BY REDUCING IDLE TIME NOT ONLY OF PERSONNEL, BUT OF MACHINERY THEY OPERATE (BY PROVIDING ADEQUATE SPARE PARTS).

2. AS EXAMPLE OF INEFFICIENCY AND HIGH COSTS OF PRODUCTION, KAISOUNI SAID VALUE OF PUBLIC SECTOR OUTPUT

IN 1977 WAS LE 2,000 MILLION, WITH PUBLIC SECTOR SHOWING PROFIT OF ONLY LE 150 MILLION. FROM THIS FIGURE MUST BE SUBTRACTED LE 90 MILLION PRICE SUBSIDIES PAID BY GOVERNMENT. PUBLIC SECTOR THEREFORE GAINED ABOUT LE 60 MILLION FOR THE YEAR. RAILROAD AUTHORITY LOSING LE 30 MILLION PER YEAR AND CAIRO TRANSPORT LOSING LE 40 MILLION PER YEAR, HE NOTED.

3. ACCORDING TO EMBASSY OBSERVER AT THE SESSION, KAISSOUNI ENDED HIS SPEECH WITH PLEA FOR PA APPROVAL OF UNITARY EXCHANGE RATE. HE SAID THAT 80 PER CENT OF ALL CURRENT TRANSACTIONS ARE TAKING PLACE AT THE PARALLEL RATE AND THAT IT IS CREATING FINANCIAL HAVOC TO CONTINUE USING OFFICIAL RATE FOR REMAINING TRANSACTIONS. (MARCH 31 PRESS REPORTS DID NOT INCLUDE THIS FINAL STATEMENT.)

4. COMMENT: POSSIBLE GOE MOVE TO UNITARY EXCHANGE RATE WAS SUBJECT OF RECENT NEGOTIATIONS WITH IMF ON EXTENDED CREDIT FACILITY. WE UNDERSTAND GOE IS IN AGREEMENT THAT SINGLE RATE WILL BE SET IN 1979 FOR ALL TRANSACTIONS WITH IMF MEMBER STATES, ASSUMING IMF FACILITY IS GRANTED. THIS SUBJECT HAD NOT PREVIOUSLY BEEN DISCUSSED EVEN SEMI-PUBLICLY, HOWEVER, AND KAISSOUNI'S ANNOUNCEMENT TO PA MAY HAVE BEEN TO PAVE LEGISLATIVE WAY FOR IMF ACCORD, ESPECIALLY IN LIGHT OF EARLIER ASSEMBLY CRITICISM OF LIMITED OFFICIAL USE

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PARALLEL RATE USE. EILTS

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